

14 August 1986

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director for Operations  
Deputy Director for Intelligence

SUBJECT: Your Luncheon Meeting with Deputy Secretary of State Whitehead  
Friday, 1215 at State Department

NO TAB This Week's Meetings. We told State that you would be interested in any new developments coming out of the de la Madrid and Australian bilateral meetings.

TAB A US-Soviet Talks. You will recall that Wednesday afternoon Fritz called together several of his colleagues to discuss for you State's intention to hold talks with the Soviets on regional issues. Fritz and others put forth the thesis that the Soviets really have no intention of discussing any issues seriously, but rather are trying to establish a "process" of bilateral discussions as we build toward a potential Summit. Fritz and others are concerned that the US has, in your words, gotten on this "trolley" and appears not to know how to get off or how to use the process against the Soviets. You mentioned that you would take this up with Poindexter and with your colleagues at State. At Tab A you will find some talking points from Fritz as well as a recent memo on Soviet negotiating strategy he sent down to the NSC.

NO TAB Libya. State has expressed an interest in talking about Libya in the wake of yesterday's NSPG.

NO TAB Afghanistan. State tells us that Armacost will be prepared to debrief on his recent talks with Yaqub Khan.

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TAB B Angola. State has also expressed an interest in our view of whether UNITA's recent attack in the Cuito Cuanavale area disrupted the timetable for the Angolan government's planned offensive. At Tab B you will find DI-DO talking points on the status of the current military situation as well as two briefing boards from OIA showing some of the damage from the UNITA attack.

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TAB C Soviet Data Denial. About two months ago Deputy Secretary Whitehead asked whether anything could be said to the Soviets to get them to back off on their data denial program. Desite his skepticism, the DDCI agreed to have [ ] look into it.

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[ ] paper will be completed in early September. In the meantime, you may want to use [ ] status report at Tab C to bring Whitehead up to date.

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DCI/DDCI Executive Staff

A

TALKING POINTS FOR DCI: US-SOVIET REGIONAL TALKS

There is a need to get some policy control over the high-level "expert talks" we have agreed to hold with the Soviets, specifically the regional talks between Armacost and Adamishin.

We're getting onto a political trolley car that can do us damage and little good.

The Soviets have probably contrived this phase of the game to make them look serious to the US and other publics. But the Nitze delegation found them not at all serious in Moscow. Their aim is to increase the political pressure on the US for some concessions to get a Summit.

The pattern is disturbing. Gorbachev (with Bessmertnykh following up) proposed expert talks. The first arms control round was a bust in part because the Soviet side was not senior enough for a real exchange. The regional round looks like the same thing.

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Meanwhile we see no evidence that the Gorbachev regime is seriously interested in modifying its regional policies. It plans to stick by its Marxist-Leninist clients. If anything, it aims to be more energetic in regional diplomacy, e.g., in the Far East and Middle East.

Apart from adding to the general pressure on us to give ground, there are specific dangers for our interests in this squishy set of "regional talks."

Our clients will be very anxious about what we're doing, and won't believe us when we say we just were jawboning. [Note: None of the regional bureaus in State, we are told, favor these talks!]

To seem reasonable on our side, we may tend to legitimize Soviet interests by what we say and don't say, e.g., talking about Soviet troop withdrawals from Afghanistan without talking about the real problem, Soviet insistence on imposing a Leninist regime.

By giving a false impression that we're cooperating with the Soviets on regional issues, we may undercut congressional support for our Third World policies.

We give the Soviets a great chance to beat up on us, e.g., over South Africa.

We may want to back away from these exchanges. If so, we could

Plead lack of time;

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Insist on a higher-level, more serious Soviet delegation (possibly risky if they agree);

Insist on negotiating a prior agenda through embassies;

Await evidence of Soviet seriousness in the second round of expert talks on arms control.

On the other hand, there may be benefits for us if...

We use the occasion to pass some unusually blunt messages to the Soviet leadership. The most important of these is that there will be no stabilization of regional conflicts unless they give up on the goal of implanting Marxist-Leninist regimes, including in Afghanistan. [Incidentally, there may be some merit in noting that Europe is also a "region" and that Soviet hegemony in East Europe is this region's most profound source of instability, the only source of military action since 1945.]

We take the initiative to characterize Soviet performance in these talks to the public, and don't let them get away with a phoney image of seriousness.

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Washington D.C. 20505

## DIRECTORATE OF INTELLIGENCE

13 August 1986

## Soviet Interest in Bilateral Discussion of Regional Conflicts

Summary

By calling for renewed discussion of regional conflicts in the runup to a possible summit meeting, Moscow hopes to gain leverage in the arms talks, create more favorable conditions for consolidating its embattled Marxist dependencies, and draw Washington into discussion of proposals which, if implemented, would tend to erode US power projection capabilities and political influence in the Third World. The Soviets do not think that the core regional struggles in Nicaragua, Angola, Afghanistan, and Cambodia can be resolved through talks with Washington, nor do they seek this. They may think that sufficient cooperation is possible on peripheral issues to present the appearance of some stabilization of Soviet-American relations in the Third World, with possible payoffs in the Third World and--more directly--in the arms talks. [redacted]

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1. At a point in time when its highest priority is domestic economic revitalization, which it hopes to protect through arms control negotiations and agreements with Washington, Moscow is confronted by a US administration it perceives to be bent on undermining its gains in the Third World, challenging the very existence of its Marxist client regimes, expanding US military activity and security ties overseas, and capitalizing on US economic leverage to reduce opportunities for further Soviet gains. [redacted]

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2. In this context, as one of several parallel initiatives aimed at shaping the US/USSR dialogue in the runup to a possible second summit meeting later this year, the Soviets have proposed

This memorandum was prepared by [redacted] of the Office of Soviet Analysis, with the assistance of [redacted] at the request of the National Security Council. Comments and queries are welcome and may be directed to the Chief, Third World Activities Division, SOVA. [redacted]

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*revised field.*

opening a new phase of discussion of regional conflicts. The Soviets proposal foresees initial talks on a "conceptual" as well as practical plane (now set for 25 August between Under Secretary of State Armacost and a delegation of three mid-level regional specialists from the Soviet Ministry of Foreign Affairs), which will then be reviewed by the respective foreign ministers--looking toward a selection of topics they might discuss that could lead to positive decisions at the summit meeting. What the Soviets are up to is still unclear, but a question-and-answer format may help us bound some of the uncertainties. [redacted]

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**Question.** To what extent has the proposal in fact been advanced to achieve exogeneous, non-regional objectives?

**Answer.** The key area the Soviets would see potentially affected by a discussion of regional conflicts would be the arms talks. Sensitized by years of US linkage of arms negotiations and Soviet regional behavior, Gorbachev's advisers may well have convinced him to seize the initiative here and demonstrate "reasonableness" to the "sober-minded" elements in Congress and among our Allies urging flexibility in the arms talks on the US administration.

[redacted]

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**Question.** Do the Soviets need a dampening of regional conflicts?

**Answer.** To some extent this would be desirable, although not essential. While some Soviets stress the prospects for exploiting Third World tensions in the near term, the dominant view appears to be that on balance--at least now--US influence can best be eroded by conveying an appearance of normalization of East/West relations in the Third World. Soviet arms deliveries and even economic assistance for selected embattled clients (e.g., Nicaragua) have not suggested any desire to abandon the policy of consolidating the "socialist-oriented" regimes, much less any strong economic compulsion to reach agreement with the United States over regional conflicts. Nevertheless, Soviet behavior does indicate a desire at the margin to contain the costs of client support. Conceivably Gorbachev could also use the appearance of progress in talking with the Reagan administration about regional conflicts as an argument internally for (a) continuing arms negotiations with Washington and (b) lowering the threat assessment of the "imperialist danger" employed to justify current rates of military spending.

[redacted]

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Question. Do the Soviets think there are prospects for resolving regional conflicts through negotiations with Washington?

**Answer.** Almost certainly not, as far as the core struggles in Nicaragua, Angola, Afghanistan, and Cambodia are concerned. But they might see the talks as a means of smoking out US intentions in these conflicts, and of asserting their claim to recognition by the United States as a legitimate superpower actor in the Third World. If they had not decided so already, the experience of almost two completed rounds of regional talks must have convinced Soviet leaders that a meeting of minds with the Reagan administration on these conflicts was highly unlikely. Despite reporting of talks by individual Soviet officials of "trading" that would preserve existing spheres of influence (e.g., Nicaragua for Afghanistan) it is highly doubtful that the Soviets believe the US could or would agree to such a deal. Nor would the Soviets want it. However, Moscow might believe that mutual accommodations are possible which could reduce Soviet risks and advance Soviet interests in regions--such as the Yemens, Iran-Iraq, the Levant, or East Asia and the Pacific--where the confrontation between the United States and the USSR has not been joined so directly. [REDACTED]

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\* \* \*

Question. Does Moscow believe it can constrain the US administration's regional policies through initiating a new dialogue on regional conflicts?

**Answer.** Probably to some extent. The Soviets may hope that a show of willingness to "negotiate" regional conflicts will help build pressure against the "Reagan Doctrine" among congressional opponents of US support for various anti-Communist insurgencies and among US Allies. By the same token, the Soviets may hope to establish the appearance of "linkage" of their own between the achievement of arms control steps highly valued by many in the West and US restraint toward Soviet Third World allies. [REDACTED]

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\* \* \*

Question. Do the Soviets believe that establishing a new dialogue with Washington over regional conflicts could directly advance their interests in the Third World?

**Answer.** Almost certainly yes. The Soviets probably calculate that it would be difficult for Washington to counter the perception that the United States was negotiating the fate of its clients over their heads with Moscow, fanning fears among insurgents and their supporters of lack of US resolve and an American sellout. The Soviets may also see the dialogue on

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regional conflicts as a useful forum in which to engage Washington in a discussion of general or regionally-specific principles of "restraint"--especially of a military character--that would in practice disproportionately affect US freedom of maneuver and would perhaps have considerable resonance among Third World audiences. [REDACTED]

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Question. Are we likely to see the "new look" in diplomatic style as the Soviets approach the dialogue on regional issues?

**Answer.** Probably yes; partly because Gorbachev's advisers may indeed have a lighter touch than Gromyko, but more because it is in the Soviet interest to keep the process going if possible and, if not, not to be seen as torpedoing it. Thus, the Soviets are not likely to lead with ringing denunciations of US "neoglobalism" and "state terrorism." Rather, they are likely--while displaying firmness on substance--to avoid excessive abuse, show "statesmanship," and condemn the United States more in sorrow than in anger. Given the very limited hopes that they probably have of actually negotiating with their interlocutors on the one hand, and the audiences they do hope to reach on the other, public diplomacy is highly likely to be the name of their game. [REDACTED]

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\* \* \*

Question. Does the Soviet highlighting of discussion on a "conceptual" plane imply an agenda that finesses concrete regional issues in favor of discussion of broad declaratory "principles"?

**Answer.** No. We are likely to see a Soviet agenda that combines country specifics and more general issues of either a regional or global nature. The composition of the Soviet delegation for the August 25th talks--Deputy Foreign Minister for African affairs Anatoliy Adamishin, Chief of the First Latin American Department (Central America) Vladimir Kazimirov, and Chief of the Near East and North Africa Countries Department Vladimir Polyakov--clearly suggests that the Soviets do not intend to evade country discussions and might take the initiative here--defining the issues very differently than we do. Our side might well be confronted with a set of no-win proposals dealing, for example, with:

- The South African menace to international security.
- "Interventionism" in Central America.

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- The Pakistani nuclear program.
- Political settlement of the Afghan war and outside "intervention."
- The Arab-Israeli conflict. [REDACTED]

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3. The Soviets could confine themselves to a rehash of positions already expressed in the first two rounds of bilateral regional talks, which would indicate an intention of either minimizing attention to regional issues at the summit or demonstrating "toughness" to an internal Soviet audience suspicious of Gorbachev's resolve. But this course of action would appear unlikely, given the Soviet initiative to hold the talks, the reference to "conceptual" discussions, and the evident intent of addressing audiences outside the conference room. The most likely alternative would probably be an attempt to engage the United States in a discussion of ideas that Gorbachev has floated at the Party Congress under the rubric of a "comprehensive system of international security," in his speech of 26 March to an Algerian delegation, and recently in his 28 July speech in Vladivostok--all of which apply to one or more regions. The agenda here might include:

- Joint sponsorship of regional CDE-type security conferences (Mediterranean and Pacific Ocean conferences have already been mentioned).
- Regional mutual security pacts.
- Nuclear-free zones.
- Regional confidence-building measures.
- Reductions of military forces and closure of military facilities (e.g., US bases in the Philippines, possibly with some clarification of a Soviet *quid pro quo*).
- Constraints on naval operations (the Mediterranean, South Pacific and Indian Ocean have been mentioned), including antisubmarine warfare.
- Economic cooperation (especially in the Pacific region). [REDACTED]

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4. In addition, the Soviets might also raise questions of a more global character. Possible items here would include:

- International economic issues, including the debt

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crisis, posed so as to constrain Western economic leverage against the USSR (a world congress on "problems of international economic security" has already been proposed).

- Terrorism, with a narrow focus on actions to which the Soviets might feel especially vulnerable.
- Natural resources and pollution.
- Scientific and technical cooperation.
- Control of export of chemical warfare materials.
- Drug trafficking.

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SUBJECT: Soviet Interest in Bilateral Discussion of  
Regional Conflicts

External Distribution:

Stephen R. Sestanovich  
National Security Council  
Room 376A, Old EOB

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15 August 1985

## Talking Points for the DCI

AngolaCurrent Military Situation

Fighting continues in the Cuito Cuanavale area and neither side apparently has achieved a decisive advantage. [REDACTED]

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[REDACTED] UNITA claims it has destroyed or damaged the radars at the airfield and to have blown up ammunition and fuel dumps. South Africa reportedly provided UNITA with some artillery support for the attack.

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[REDACTED] told us that UNITA did in fact capture the airfield Monday, but was unable to hold it and was driven back Tuesday following a tank-led government counterattack.

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--Reports from UNITA and the South Africans also indicate the government has flown airstrikes in support of its troops.

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--Since Sunday, the Angolans have increased the fighter strength at Menongue by about 15 aircraft and some of these probably flew the airstrikes in the Cuito Cuanavale area. Soviet-flown IL-76 heavy transports have also delivered military cargo.

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[REDACTED] UNITA says it has blown bridges along this road and deployed forces to block or delay government relief efforts.

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--There has been a small recent increase in air strength at the South African base at Rundu, but not enough to support a major intervention at this point.

Implications of the Fighting

UNITA launched the attack to disrupt the government's annual dry-season offensive. According to their own preliminary assessments, UNITA and South African military officials believe the Angolan government will be forced to delay if not postpone the offensive this year against UNITA positions in the southeast.

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--We believe it is too soon to draw conclusions on how severely the government has been hurt, although Luanda certainly has been rocked back by UNITA's surprise attack. So far UNITA appears to have inflicted little serious damage and Luanda has moved to strengthen its forces in the region.

--If Luanda could quickly reestablish its control of Cuito Cuanavale, it would still have about three more dry months before the rains begin in November to mount a drive toward Mavinga--the objective of the 1985 offensive.

--Despite any effect the recent fighting has had on the expected southern arm of the offensive, the government could still move with more limited objectives from the Luena-Lucusse area in the north.

Last year, South African airstrikes ultimately blunted the government offensive. Substantial Angolan reinforcement of its position at Cuito Cuanavale or renewed threat of an offensive could prompt preemptive South African airstrikes. Pretoria has already provided artillery support to UNITA and can quickly reinforce its air strength in the region.

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**TAB C     UNITA/FAPLA Fighting at Cuito Cuanavale and Munhango.**     Richard Armitage has asked Weinberger to get your assessment of the UNITA/FAPLA situations in Cuito Cuanavale and Munhango. Armitage is concerned about the State Department's public statement on South African military involvement in Angola. State's press guidance said "We do not condone any South African raid into Angola nor can we accept a justification for such action on the basis of South Africa's illegal occupation of Namibia." South Africa was providing logistical support to Savimibi's forces at Cuito Cuanavale. We have no information that SADF forces are operating in the Munhango area.

At Tab C are the State Department's press guidance and a DO-DI assessment of the situations in Cuito Cuanavale and Munhango.

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RUFHRO/AMEMBASSY ROME PRIORITY 1475  
RUEHKO/AMEMBASSY TOKYO PRIORITY 9367  
RUFHNA/USMISSION USNATO PRIORITY 9005  
RUEHCT/USMISSION USUN NEW YORK PRIORITY 5897  
RUEHIA/WASHDC PRIORITY  
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UNCLAS STATE 252925

FROM AF/P: INFORM CONSULS AND PACS. PARIS ALSO FOR POPE

E.O. 12356: N/A  
TAGS: OPRC, PREL, SF, US  
SUBJECT: PRESS GUIDANCE, AUGUST 12, 1986

BRUSSELS PLEASE PASS USEC  
CAPE TOWN FOR EMBASSY

1. THE FOLLOWING PRESS GUIDANCE ON SOUTH AFRICAN  
DEVELOPMENTS PREPARED FOR USE BY DEPARTMENT SPOKESMAN  
8/12/86. CABLE BEING SENT BEFORE NOON BRIEFING.

2. QTE. Q: CAN YOU CONFIRM REPORTS OF A SOUTH AFRICAN  
RAID INTO SOUTHERN ANGOLA?

A: WHILE THE DETAILS ARE UNCLEAR, IT APPEARS THAT REPORTS  
OF A SOUTH AFRICAN RAID AGAINST THE ANGOLAN MILITARY BASE  
AT CUITO CUANAVALLE HAVE A BASIS IN FACT.

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CENTRAL INTELLIGENCE AGENCY

15 August 1986

MEMORANDUM FOR: DDI

FROM: DCI

Will you please bring to the State lunch today the information about the State press guidance on the alleged South African raid into Angola and the covering memorandum (in Poindexter and Weinberger books of yesterday and today) which says we had no evidence they participated in the attack.

Get the above together and be prepared to talk about it at the lunch.



William J. Casey

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Topic for DCI/Secretary of Defense Meeting on 15 August 1986

SUBJECT: Situation Report: Fighting Continues at Cuito  
Cuanavale and Munhango

Cuito Cuanavale: On 9 August 1986, Angolan Armed Forces (FAPLA) located at Cuito Cuanavale came under mortar and artillery attack by the National Union for the Total Independence of Angola (UNITA) with South African Defense Force (SADF) support. UNITA and SADF forces were to concentrate their attack on Soviet and Cuban quarters. Initial reports suggest that Angolan and Cuban units were taken by surprise. The present situation remains fluid; [redacted]

[redacted] indicates that UNITA forces held the town and airfield for a time but lost it on 12 August. [redacted]

[redacted] that South Africa helped in the logistical preparations by supplying artillery and mortar rounds for the attack and by training UNITA artillery gunners.

Munhango: Fighting, which has been underway since late May, is also continuing in the vicinity of Munhango. Although Angolan forces hold strong positions in the vicinity of the town, they appear to be under continuing harassment from UNITA forces. We have no information to suggest that SADF forces are operating in the Munhango area. The town lies astride a key logistical route to UNITA forces in the north and is on a potential government supply line to its forces in the east.

While the situations at both Cuito Cuanavale and Munhango are still fluid, our intelligence indicates that UNITA believes its attack on Cuito Cuanavale will delay and possibly postpone the expected FAPLA 1986 offensive directed against UNITA positions in southeastern Angola. SADF forces provided no air strikes or air cover during the course of the fighting in the Cuito Cuanavale area in support of UNITA efforts; however, [redacted] had [redacted] information prior to the 9 August attack on Cuito Cuanavale that the SADF had airlifted eight Valkiri launcher vehicles, eight G-5 cannons, artillery, and intelligence/logistical/medical officers into the Mavinga area to support the operation. [redacted]

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~~TOP SECRET~~Implications of the Fighting

UNITA launched the attack to disrupt the government's annual dry-season offensive. According to their own preliminary assessments, UNITA and South African military officials believe the Angolan government will be forced to delay if not postpone the offensive this year against UNITA positions in the southeast.

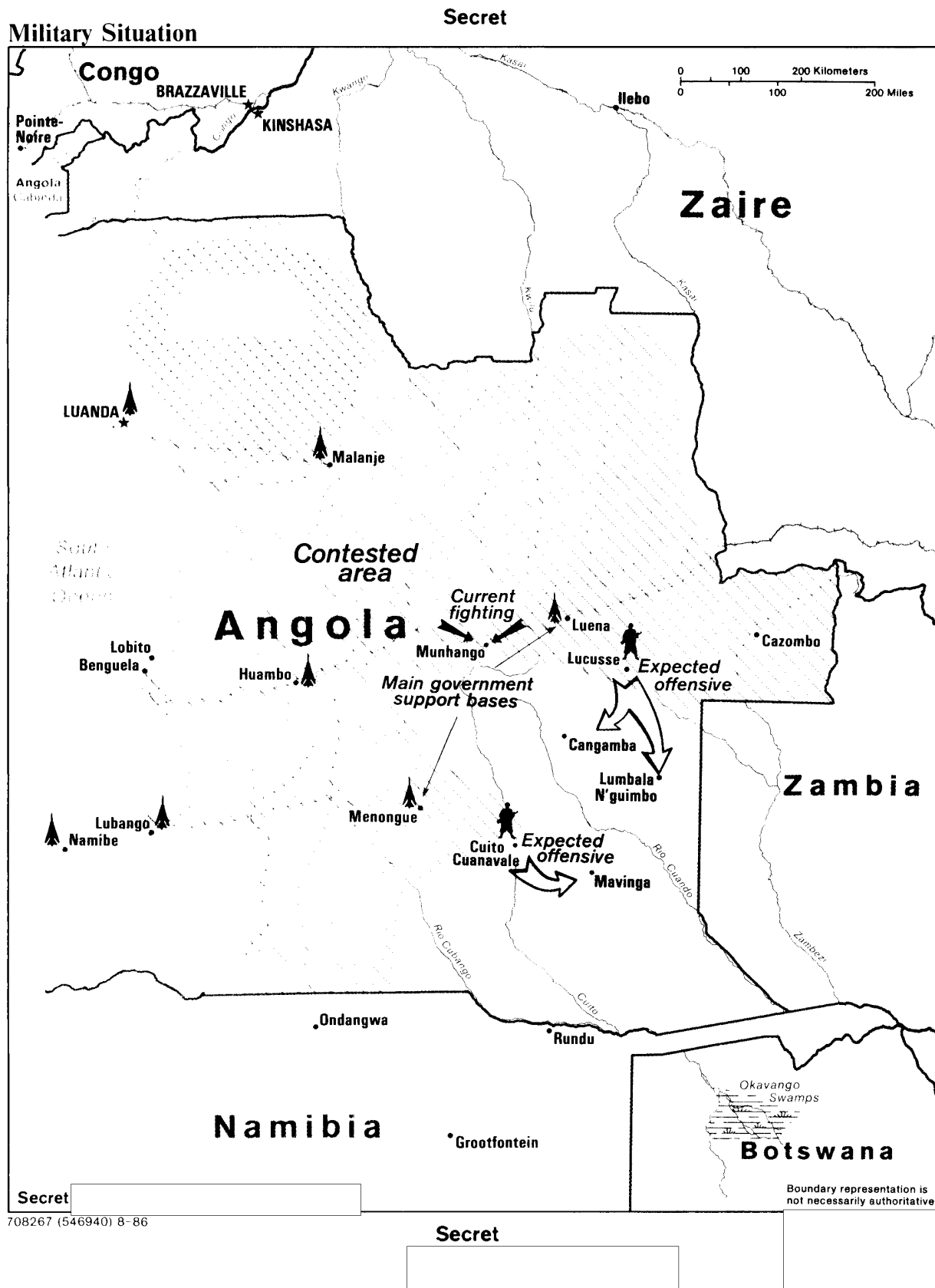
--We believe it is too soon to draw conclusions on how severely the government has been hurt, although Luanda certainly has been rocked back by UNITA's surprise attack. So far UNITA appears to have inflicted little serious damage and Luanda has moved to strengthen its forces in the region.

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--Despite any effect the recent fighting has had on the expected southern arm of the offensive, the government could still move with more limited objectives from the Luena-Lucusse area in the north.

Last year, South African airstrikes ultimately blunted the government offensive. Substantial Angolan reinforcement of its position at Cuito Cuanavale or renewed threat of an offensive could prompt preemptive South African airstrikes. Pretoria has already provided artillery support to UNITA and can quickly reinforce its air strength in the region.

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WE DO NOT CONDONE ANY SOUTH AFRICAN RAID INTO ANGOLA NOR  
CAN WE ACCEPT A JUSTIFICATION FOR SUCH ACTION ON THE  
BASIS OF SOUTH AFRICA'S ILLEGAL OCCUPATION OF NAMIBIA.

WE HAVE NEVER BELIEVED THAT THE CONFLICTS IN ANGOLA AND  
NAMIBIA COULD BE RESOLVED THROUGH MILITARY MEANS. A  
NEGOTIATED SETTLEMENT ON THE INDEPENDENCE OF NAMIBIA  
UNDER UNSCR 435 AND THE WITHDRAWAL OF CUBAN TROOPS FROM  
ANGOLA IS THE ONLY WAY TO ATTAIN PEACE AND STABILITY IN  
THE REGION. END QTE.

SHULTZ  
END OF MESSAGE

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ACIS - 1555/86-b  
14 August 1986

TO: DCI/DDCI/DDI

EYES ONLY

FROM: C/ACIS

SUBJECT: Last Minute Items



STAT

This note is FYI.

Attached is a replacement page for your briefing book for Secretary Whitehead.

Given your planned vacation, the basic issue contained in NIO/USSR's memo to you on the meetings in Moscow presents a timing problem. If you wait until you return, there may not be enough time to raise the issue and fix it.

Thus, you may want to raise this issue with Secretary Weinberger and Secretary Whitehead, but augmented with the two points I gave you on the phone:

- o Nitze read the relevant portions to the Soviets from the President's letter.
- o The US knows there are ambiguities left in the Soviet's mind, which must be corrected soon.

Alternatively, you may want to send a letter to Admiral Poindexter. Or, do all of the above.

The point for the future ought to be that US delegations simply must be better prepared.

If ACIS may assist you more, please call.



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WORKING PAPER  
ACIS - 1551/86-d  
14 August 1986

Talking Points for DCI Luncheon  
With Deputy Secretary of State Whitehead, 15 Aug 86

- I want to return, on an interim basis, to an issue you raised with us about two months ago in a meeting with DDCI Gates; i.e., Soviet data denial activities and what, if anything, the US could say about it to the Soviets.
- You (Secretary Whitehead) expressed an interest in raising Soviet data denial activities (other than encryption) with the USSR to see if they would back off. Apparently, the idea was (is ?) that if this activity were brought to Gorbachev's attention as a new violation, at a time when he is supposedly interested in improving the atmosphere, we might get some positive action.
- DDCI Gates then expressed considerable skepticism. I agree.
- But we promised to have [ ] prepare a memorandum on what exactly the USSR was up to and, much more importantly, whether anything could be said to the Soviets. We have been working on this project and have not forgotten the issue.
- And the Soviets, of course, have not forgotten their interests either:

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- As you might imagine, this is a quite complicated topic. We hope to have this memorandum ready for you in early-September.
- Meanwhile, our current policy of silence is simply our best course of action.

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## Contra Aid Stirs Military In Honduras

By Julia Preston  
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TEGUCIGALPA, Honduras, Aug. 13—A struggle has erupted among ranking Honduran military officers seeking to benefit from the \$100 million in aid sought by the Reagan administration for Nicaraguan rebels operating out of this country.

A police raid last week on the house of a Honduran legislator and merchant who did a multimillion-dollar business with the Nicaraguan rebels has bared a rift over who will control the flow of that aid through Honduras. The issue has raised the stakes in a tug of war over who will become armed forces commander-in-chief in a December succession, according to Honduran and foreign military sources and diplomatic observers.

The home of Rodolfo Zelaya, 43, was riddled with bullets at dawn Friday by some 40 security police. No one was injured but Zelaya, his wife, a daughter and mother-in-law were led off gagged and blindfolded to police headquarters.

The raid, and Zelaya's charges against two colonels responsible for it, provided an unusual glimpse into shadowy links between some military officers and civilian brokers who have reaped profits from past U.S. aid to the Nicaraguan

contras—as the rebels are known—according to the sources. "Dollar fever has come to Honduras," remarked the widely heard radio commentator Jose Trinidad Murillo on the air this morning. "\$100 million is \$100 million."

In a rare punitive measure, the two colonels were suspended from their posts yesterday pending a special military commission's inquiry. The investigation was ordered by President Jose Azcona Hoyo and is supervised by the current armed forces commander-in-chief, Army Brig. Gen. Humberto Regalado Hernandez.

"This is a fight among the mafia who see a big opportunity to make money with the \$100 million," said a senior congressman from the Liberal Party, which controls the government. He asked not to be identified by name.

The military, which has long been plagued with corruption and violent internecine hatreds, remains the most powerful institution in this small nation.

Police promptly released Zelaya's family but three of his armed bodyguards remained in custody. Police chief Col. Wilfredo Sanchez said they were "a clandestine armed group that didn't belong to any government office."

Zelaya owns the Hermano Pedro supermarket in this capital, a modest storefront that flourished to become the largest supplier of uniforms and rations over the past year to the anti-Sandinista guerrillas.

The store was paid \$6.6 million of the \$27 million in humanitarian aid that the State Department provided the contras last year. Checks for \$1.2 million went from a Miami bank account in the supermarket's name to several Honduran military officers or offices, U.S. investigators found.

Zelaya, known widely by the nickname "Clear Night," a mariachi song title, is also a substitute deputy in the Congress from the conservative National Party. He enjoys constitutional immunity.

Dissatisfied with the police chief's explanation of the raid, Zelaya over the weekend hurled accusations at him and the officer Zelaya said ordered the raid, armed forces intelligence chief Col. Roberto Nunez Montes.

Zelaya charged Nunez was trying to edge him out of his contra com-

merce. He also charged the officer had corruptly peddled Army gasoline coupons, and commanded a bungled, bloody 1984 operation in which five innocent Hondurans were slain.

"I'm not going to argue with a gangster," responded Nunez Sunday, threatening to sue Zelaya.

Civilian and military sources said Zelaya was the civilian agent in behind-the-scenes lucrative deals for a series of officers who held the top armed forces intelligence post over past years.

"He has the proof, and many officers know it," said one well-placed Honduran military source. He said senior officers were aware that Nunez two years ago illicitly sold 10,000 coupons to buy gasoline reserved for the armed forces, as Zelaya charged.

The armed forces moved speedily to suspend Nunez and Sanchez to preempt by a few hours a motion passed by the Congress demanding the investigation. But an armed forces communique released yesterday suggested that the special commission would limit its probe to possible violations of Zelaya's special congressional status.

The armed forces high command stationed a 24-hour guard at Zelaya's house, reflecting continuing support for the impulsive congressman in some military ranks.

The raid was ordered, according to military sources and political observers, during a shift among the officers participating in Zelaya's contras business. It coincided with moves in the military to replace Zelaya as the contras' supplier. "The idea of the raid was to find some illegal weapons and put Zelaya out of business, to take over," said a Honduran military source.

Zelaya was dealing with Nunez's predecessor at armed forces intelligence, but "something happened" between the two men in mid-1985, military sources said. When Nunez got the job in a routine rotation later last year, he angled to resume the partnership.

Zelaya told friends he received a phone call in July from Nunez reiterating his interest in joining the business, but held off the officer. Days later, a high-ranking Army

commander consulted with another civilian businessman to see if he would take over from Zelaya in supplying the contras, according to military sources.

The exact methods by which officers benefited financially from the contra aid remain unclear. Receipts for some goods sold to the contras from Zelaya's and other stores here indicated the merchants sometimes charged high prices for relatively cheap Honduran goods. U.S. aid also made dollars available for black-market exchange.

A U.S. official said the State Department collected receipts and monitored transactions to prove that all goods and services purchased with the \$27 million—including funds drawn down by Honduran military officers—were delivered to contra groups. The last suppliers in Central America were paid in early July, he said.

One check for \$450,000 was drawn from Zelaya's supermarket bank account in Miami and made out to the office of the armed forces' commander-in-chief. That office provided U.S. congressional investigators records from the Honduran central bank to show that the dollars were deposited there to be converted at legal rates to local currency.

However, the State Department was not in a position to account for the resale of dollars in Honduras. "They became a commodity," said one U.S. official.

According to U.S. officials and internal contra documents, Zelaya was selected to be the contras' wholesaler for purchases using the State Department's funds in an agreement late last year between contra leaders and Honduran officers. It came when the Honduran government was pressing the contras by blocking the entry of all aid shipments destined for the contras.

This week, the contras watched with worry from the sidelines.

Tensions sparked inside the military by the Zelaya affair are expected to complicate the December change in the highest military command, a western diplomat noted.

In line for the post is the commander of the Army, Col. Guillermo Thumann Cordon. Thumann has been the armed forces' key liaison with the contras for the past year, military sources said.

An edgy Zelaya said yesterday he will close down his supermarket and withdraw from "my business."

*This may be what  
generated State's  
question on the  
Agenda.*